

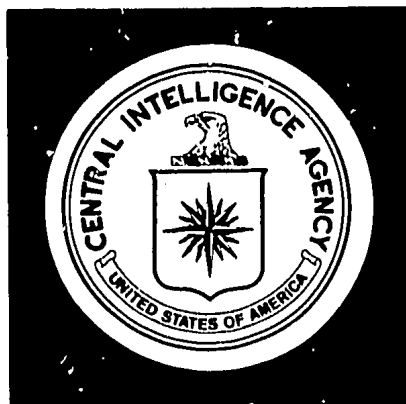
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Intelligence Memorandum

US-Romanian Economic Relations: The Ceausescu Visit

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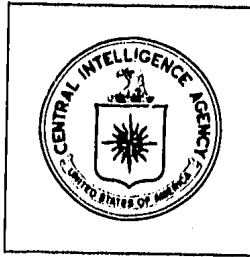
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November 1973

**US-Romanian Economic Relations:
The Ceausescu Visit**

Romanian President Nicolae Ceausescu will visit the United States during 4-10 December, capping a record year in US-Romanian trade activity. Trade in 1973 will reach US \$200 million, double the volume last year, and new large contracts promise continued gains. The boom in trade reflects both a relaxation in US trade policy and Ceausescu's need to find new sources of medium-term and long-term credit.

Romania has not only one of the fastest rates of growth in Eastern Europe but also one of the heaviest hard currency debts. Unless Ceausescu is willing to impose controls on imports -- and on the rate of growth -- he probably will be in the market for debt relief from his major West European creditors by 1975. So far as the United States is concerned, Ceausescu wants more in the way of Export-Import Bank (Eximbank) credits, more cooperative ventures providing new Romanian export opportunities, and eventual most-favored-nation (MFN) status. Although Eximbank-financed sales of US machinery will continue to fuel trade for the time being, cooperative ventures, including joint investments, will be needed to generate sustained expansion over the longer run.

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Note: Comments and queries regarding this memorandum are welcomed. They may be directed to

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DISCUSSION

The Visit

1. Ceausescu's visit to the United States during 4-10 December will focus on expanding US-Romanian relations. He will be seeking assurances that MFN status is not a dead issue, that the US credit climate remains favorable, and that his country stands a chance of finding new export outlets in this country. For a chief of state, he is slated to visit an unusual number of US firms with which Romania is doing business, including Gulf Oil, Pratt & Whitney, and possibly Boeing.

2. Ceausescu's last trip here -- in October 1970 -- involved a coast-to-coast tour, laced with plant visits and talks with US bankers and businessmen on the possibilities of acquiring US credit and technology. This time, Ceausescu can see some results. US-Romanian trade, although still small, is booming; the 1972 turnover of \$100 million was surpassed in August, and several large deals currently are under negotiation. In addition to his desire for US technology, the increased trade reflects Ceausescu's general economic policy -- and growing debt problems -- at home.



President and Mrs. Ceausescu on the White House balcony, in October 1970

The Economy Under Ceausescu

3. Romania's economy has not basically changed since Ceausescu took power in 1965 -- it still is one of the fastest growing and most tightly controlled in the world. Ceausescu's economic policy continues to feature

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a Soviet-styled drive for industrialization but with considerable independence from Moscow. Romania's impressive industrial growth rates have been accompanied by rapid increases in imports from, and indebtedness to, the industrial West (see the table). Ceausescu's international policies also have achieved Romanian membership in GATT (1971) and the IMF and

Romania: Growth and Trade

	Annual Average 1966-70	1971	1972
	Percent		
National product ¹	7.7	12.8	10.2
Industrial output	11.8	11.4	11.7
Agricultural output	0.7	16.2	9.0
Imports			
Industrial West	16.8	7.8	16.8
Communist countries	9.7	6.2	20.0
Exports			
Industrial West	16.6	21.6	12.0
Communist countries	7.0	12.0	21.3
	Million US \$		
Trade balance			
Industrial West	-224	-146	-203
Communist countries	22	64	92

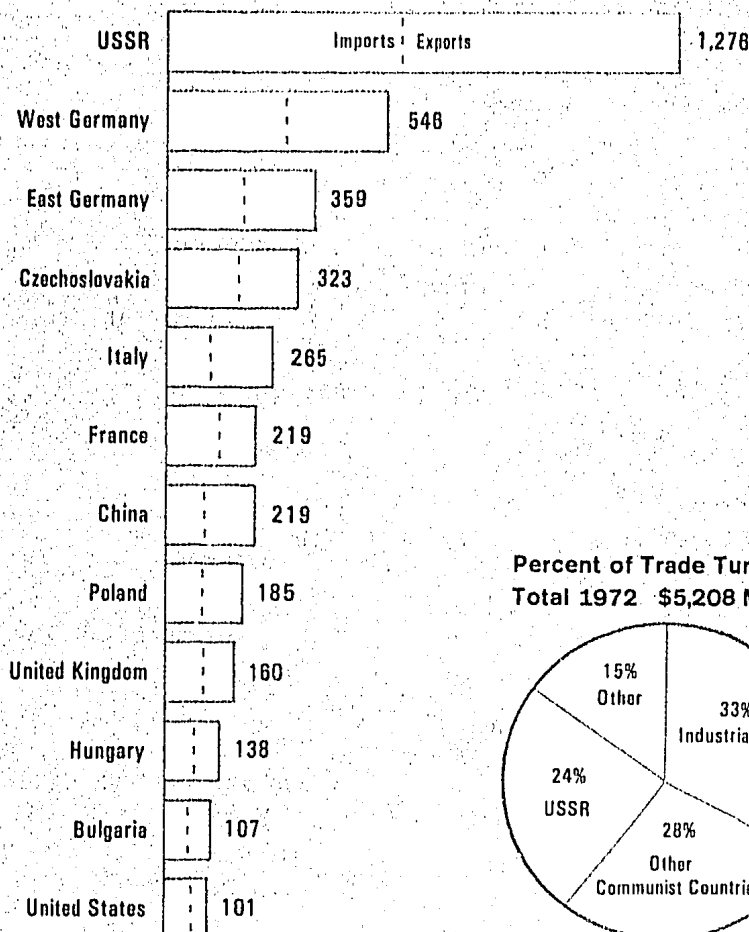
1. Estimates of GNP according to Western practice would yield annual rates of roughly 2 percentage points lower than Romania's "national product" calculations.

the World Bank (1972) and generalized tariff preferences from the European Economic Community.

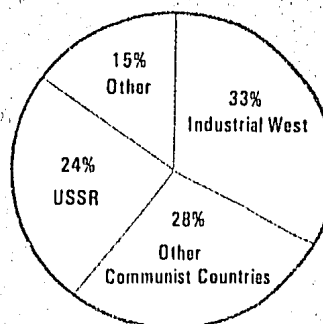
4. The industrial West accounts for one-third of Romanian trade (see the chart). During 1965-72, imports from the West increased from 29% to more than 36% of the total, and exports, from 24% to 30%. Romania imports mainly machinery and other Western manufactures and exports food and industrial materials, especially petroleum and timber. As shown in the chart, Romania's leading Western trade partner is West Germany, which accounts for about 10% of trade, followed by Italy, France, the United Kingdom, and the United States.

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Million US \$



Percent of Trade Turnover
Total 1972 \$5,208 Million



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5. Chronic hard currency trade deficits have resulted in a huge debt to the West -- \$1.2 billion at the end of 1972. Romania's annual debt service payments now are running at about 40% of total exports to the West, higher than any other East European country except Bulgaria. West Germany is the largest creditor, holding about one-third of Bucharest's medium-term and long-term debt; France and the United Kingdom each account for about 20%. [redacted] the country currently has gold and hard currency reserves of \$200 million -- equivalent to about three months' imports from the West. Most of the reserves are in gold.

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6. Romania's debt has continued to mount rapidly in 1973, nearing the point that some combination of import controls, debt rescheduling, or new very long-term credits will be required. [redacted]

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[] it will be under considerable repayment pressures in 1974-75. So far, Ceausescu's only concrete response to the problem has been a longer term campaign to expand hard currency exports through more co-production agreements and Western equity investment in Romania. A West German, an Italian, and a US firm each has concluded a joint investment deal in Romania, each with some provision for generating exports. A noticeable impact on overall exports, however, can not be expected from foreign investment before the late 1970s, if then.

7. Import controls have been threatened a number of times. In late 1972, Ceausescu warned of impending cutbacks. []

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[] Data for the first few months of 1973 show exports to the West increasing by roughly 9% -- one-third the rate of imports. Moreover, Romanian trade organizations continue to sign large new import contracts.

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8. If short-run debt relief is needed, Ceausescu will turn first to his major creditors, especially West Germany. The West Germans have been fairly cooperative in the past, rescheduling part of Romania's debt after the floods in 1970. In 1973, however, they rejected Ceausescu's bid for \$125 million in government credits at 2.5% interest. At the same time, private German banks came through with credits of \$85 million at 9.5% interest. Standby credit assistance also might be available from the IMF, although Bucharest has already withdrawn \$47.5 million in hard currency -- its entire initial deposit. Not missing any opportunities, Ceausescu already has approached the World Bank for long-term development credits.

9. Ceausescu, of course, could ease his debt worries by channeling some imports to other Communist countries. Even Yugoslavia was able to carry out a short-run shift to the East when it ran into a debt crisis in 1971. Communist countries now account for more than 50% -- the USSR alone for about 25% -- of Romanian trade, reflecting both Romania's need for East European raw materials and the receptive Communist markets for Romanian consumer goods and even machinery. Although remaining extremely cautious, Ceausescu already has become a more cooperative maverick in CEMA. He is investing in the Soviet raw materials base and becoming more involved in some CEMA commissions and projects. Moreover, Romania has obtained the largest hard currency development loans that have been dealt out so far by CEMA's International Investment Bank. Ceausescu also has looked to China for assistance, receiving in 1970 a hard currency loan estimated at \$40 million.

10. Another way out would be to slow down the industrialization drive and stretch out import requirements. But Ceausescu not only rejects the idea but also has been pushing to get the already ambitious 1971-75

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plan completed in four and one-half years. To its credit, the plan has stressed development of industries with some export potential - chemicals in particular. On the other hand, extremely rapid growth has strained supplies of another major export, refined petroleum. Petroleum products have fallen from 24% of exports in 1960 to 5% in 1972, and Romania is now buying crude oil from the Middle East, mainly from Iran, which shipped 1.5 million metric tons of the estimated 2.7 million tons imported in 1972.

11. If Ceausescu can postpone his debt problems with new credits or rescheduling and continue to count on Soviet raw materials, the economy can keep running under his high-pressure policies for the next several years. And despite his complaints of poor quality and lagging economic efficiency, he will not change his commitment to a command economy. Indeed, recent reforms have produced further centralization and given Ceausescu more direct control. In 1973 the number of ministries was reduced, and a supra-cabinet, answerable only to Ceausescu, was created to oversee the economy.

Trade with the United States

12. Ceausescu's long-held hopes of closer economic ties with the United States finally are being realized with the relaxation of US credit restrictions in the past two years. US-Romanian trade turnover has grown from a mere \$8.2 million in 1965 to more than \$100 million in 1972 and should reach \$200 million by the end of this year. The United States should overtake the United Kingdom and take fourth place among Romania's Western trading partners. As shown below, the United States is earning a sizable surplus in this trade:

	Million US \$		
	US Exports	US Imports	Balance
1960	1.3	1.5	-0.2
1965	6.4	1.8	4.6
1970	66.4	13.4	53.0
1971	52.5	13.8	38.7
1972	69.4	31.5	37.9
1973 (9 months)	82.2	37.5	44.7

13. Until this year, when Romania began to contract for large amounts of US machinery, the trade has involved an exchange of Romanian refined petroleum products and consumer manufactures, such as clothing,

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footwear, and glassware, for US foodstuffs and raw materials, especially cattle hides, which alone were 28% of total US sales in 1972. Machinery accounted for only 16% of Romania's imports from the United States last year, compared with 45%-60% of its imports from its largest West European partners.

14. Although the United States has been a latecomer in Romania's growing trade with the West, an American firm was one of the first to take advantage of Romania's law permitting foreign investment, adopted in 1971. Last April, Control Data Corporation agreed to invest \$1.8 million for a 45% share of Romcontrol Data, set up to produce computer equipment. The US firm will purchase 85% of the output for sale through its own distribution network; Romania will market the remaining 15%. The venture is expected to generate \$10 million worth of output in the first five years.

US Credits

15. Much of the current boom in US-Romanian trade clearly can be attributed to the extension of Eximbank facilities in 1971. Eximbank credits were briefly made available in the mid-1960s before the Fino Amendment (1968) banned assistance to countries trading with North Vietnam. Only one guaranteed loan was made during that period, a \$16.2 million credit for petroleum refining equipment. Repayments started in 1968. Since the President was given the power to grant Eximbank coverage in 1971, authorizations to Romania have covered \$76 million in direct loans and guarantees, most of which has been extended this year.

16. The two largest Eximbank authorizations -- both in 1973 -- have been for the purchase of a tire plant from General Tire Corporation and three Boeing 707 aircraft. Eximbank has provided a loan of \$13 million to help finance the \$35 million sale of tire plant equipment and is guaranteeing another \$13 million loan from a private US bank. The aircraft sale, \$45 million, is being financed by a \$20 million Eximbank loan; Morgan Guaranty Trust will match that amount. Eximbank facilities also have been involved in a number of other large sales, including US machinery for an ammonia plant, a machine tool factory, and a synthetic rubber plant. Most of the recent deals will not begin to show up on the US balance of payments until next year; disbursements by Eximbank to Romania totaled only \$9 million through September.

17. Romania also has taken advantage of other US credit facilities. As of the end of September, Romania owed \$33 million on Commodity Credit Corporation credits and a small amount on private US bank loans. Allowing for the small drawings on Eximbank credits, Romania's

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indebtedness to the United States currently is only about \$50 million. But the debt will grow rapidly. Drawings on credits arranged in 1973 alone will bring the debt to more than \$100 million in the next year or so, and negotiations are moving along on several new large ventures.

New Negotiations

18. The largest contract under discussion is for the sale of 100 US helicopters from Sikorsky over a five-year period at a cost of about \$100 million. A French firm also is in the running for the contract. Eximbank has refused to finance the project on the grounds that it would not contribute to Romanian economic development. The Romanians also are talking with Standard Oil of Indiana and Gulf Oil on a proposed petrochemical complex, and they have contacted Pratt & Whitney, General Electric, Bendix, and other US firms about a machine tool complex. Several US firms have been approached about a co-production agreement for diesel engines involving an estimated \$15 million in US machinery. In addition, Romania is negotiating to buy \$12 million worth of US compression equipment and \$7 million in film processing machinery. Finally, Romania has expressed interest in investing in a Consolidated Coal project in Virginia, in return for an assured supply of coking coal. Consolidated wants three partners to invest a total of \$52 million.

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20. In spite of problems, enough contracts have been concluded or are nearing completion to boost US-Romanian trade substantially in the next two years. Growth beyond 1975, however, will depend on how well Ceausescu fares with his program to boost hard currency exports. MFN status would be of some help, especially to Romanian sales of furniture and other consumer goods, but even Ceausescu sees MFN as mainly a political issue. In the longer run, Eximbank financing of US machinery sales will not be enough – a sustained rapid expansion of US-Romanian trade will require all the cooperative ventures Ceausescu can arrange.

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